



Fairfax County Internal Audit Office

Department of Tax Administration & Department of Finance
Tax Refunds Audit
Final Report

September 2010

"promoting efficient & effective local government"

Introduction

The Department of Tax Administration (DTA) is responsible for the assessment of three types of tax categories within Fairfax County. These three categories are real estate (RE) both commercial and residential, Business, Professional and Occupational License (BPOL), and personal property (PP). The real estate tax assessment is levied annually on 100% of the estimated fair market value as of January 1st of each year. The business license tax is an annual tax on businesses, professions, trades or occupations in the county. The tax is also assessed on March 1st of each year. Personal property tax is levied on automobiles, trucks, motor homes, motorcycles, trailers, campers, boats, outboard motors, airplanes, and on business personal property. The current personal property tax rate is \$4.57 per \$100 of assessed value. However, mobile homes are taxed at the real property tax rate. Airplanes and boats are taxed at \$0.01 for each \$100 of assessed value.

The county's refunds for overpayments are processed through automated and manual payments with refund amounts ranging from \$5 to over one million dollars. On average, the county performs refunds of 60,000 transactions per year. For the years 2007, 2008, and 2009, the county refunded a total of \$27,972,958, \$25,213,967, and \$24,498,491 respectively. Of these totals, tax refunds from real estate, PP and BPOL represented 50%, 35%, and 15%.

Each of these tax categories utilizes and maintains its own application system. Of the three application systems, Business Property License (BPL) and Assessments and Licensing Application System (ALIS) are mainframe systems while Integrated Assessment System (IAS) is a Commercial Off-The-Shelf (COTS) server-based application system on the county's network. The above named applications are used for BPOL, personal property, and real estate taxes respectively.

Executive Summary

We found that controls were in place and appeared to be operating effectively to ensure that tax refunds were proper, calculations were accurate, and transactions were completed in a timely manner. Management oversight included determining that controls related to the application systems and refund functions were monitored on a regular basis, and adhered to agency standards.

Compliance was noted with applicable sections of the county's IT Security Policy, and system input, processing and reporting capabilities were effectively and efficiently managed. We also confirmed supervisory oversight and preventative measures were effective to ensure the integrity of the data calculations and the interfaces between FAMIS and the three application systems.

The three tax systems are not linked to each other and information cannot be transferred from one application system to the other; however, management has implemented internal controls and staff adhere to the verification steps required to

maintain the integrity of the data in the systems. This provided assurance for the accuracy of the monetary refunded amounts. DIT provided DTA staff with technical support for all three applications, and backup and retention services for all servers required to maintain the tax data. However, we did identify one area within the audit that could be strengthened - there was a lack of formalized procedures for maintaining user access lists.

We would like to commend the DTA staff for their support and invaluable time spent conducting walkthroughs, meetings, and providing assistance to ensure a thorough understanding of the steps and functions involved in each tax refund process obtained by Internal Audit.

Scope and Objectives

This audit was performed as part of our fiscal year 2010 Annual Audit Plan and was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The audit covered the period from July 1, 2008, through June 30, 2009. In addition to this audit, we performed a follow-up of findings noted during a prior audit. The results of that follow-up have been communicated to DTA management in a separate memorandum.

The scope of this audit did not include review of tax revenue received; our focus was restricted to the tax refund process for the three tax categories, real estate, business personal and occupational license, and personal property.

The objectives of our audit were to determine that:

- The refund process was handled correctly.
- Policies, procedures, and documentation used by staff for the refund process (operations, end users, system administrator(s)) were adequate, proper internal controls existed and complied with applicable sections of DTA and DOF internal operational procedures and the countywide IT Security Policy.
- The systems' input, processing, security, and reporting capabilities were effectively and efficiently managed.
- The calculated refund data amounts were accurate and reliable, and controls adequately and effectively prevented unauthorized or fraudulent access to the tax application systems.
- Management transaction trails and audit logs (detective controls) were adequate and separation of duties existed and operated effectively.
- The backup and restore procedures were accurate and properly maintained.

Methodology

Our audit approach included on-site visits with the DTA staff involved in the tax refund process as well as the DOF staff who performed the check generation and distribution processes, and DIT staff who provided technical support for the DTA applications. We conducted individual interviews and observed employees' work functions, reviewed the application system as well as user documentation including reports, audit logs, segregation of duties, and check generation and distribution. We tested the internal controls for accessing the three application systems. The steps included the operational controls implemented by management, employee job functions performed, and the associated procedures for each refund process. We compared data from the three application systems (BPL, ALIS and IAS) against the supporting documentation that accompanied each refund condition through to the refund check.

Our audit focused on controls over the tax refund process and calculations as well as interest payments for all three application systems. We also verified the internal controls and authorization processes used at the various monetary approval levels. Our review did not focus on the electronic calculations; however, we did test a sample of electronic calculations to verify the integrity and accuracy. These techniques included comparing documentation in the respective application systems with the supporting hardcopy documents to verify refund calculations and interest payments. Three hundred sample refunds selected from FY 2009 in the amounts from \$5 to over \$1 million were examined for reasonableness and to evaluate the accuracy of each refund transaction. Sample testing was performed judgmentally to ensure the dollar amounts were not concentrated on one specific range, but all ranges were identified and tested. Testing included locating the unique identifier for each transaction, reviewing the manual and system documentation provided as well as reviewing the original and adjusted values. We then compared the original and adjusted tax amounts paid against the new property value. We reviewed the reason for the adjustment, authorization approval, and performed the revised calculation to arrive at the DTA refund amount. For personal property and BPOL, the unique identifier represented one instance of a payment and refund; however, with real estate, the unique identifier sometimes represented more than one property at the location resulting in more than one payment and refund check. We also performed compliance tests to evaluate the processes used for operational transactions, departmental policies and procedures as well as county policies within both DTA and DOF functions.

We reviewed the use of access request forms, tested the individual applications authorization processes; the appropriateness of the application systems, discussed the procedures with staff, and checked the systems functionalities.

We prepared spreadsheets and compared the calculations and interest amounts for some of the test documentation reviewed. Our calculation results either agreed with or variances were nominal from the supporting documentation reviewed. We did not identify material differences between the calculated amounts. Our audit did not examine the application controls over the county's financial application system, FAMIS. A portion of our transaction testing did rely on those controls; therefore, this was a

scope limitation. The potential impact of this limitation on our findings was that a minor portion of verification of daily posting may be erroneous. This was not considered a material limitation.

Finding, Recommendation, and Management Response

Procedures for Maintaining User Access List

DTA did not have a structured and formalized set of procedures for maintaining mainframe user access. Section 2.1 – Account Management/Access Control of the county's IT Security Policy states that, "The owner of information assets should implement procedures and safeguards to ensure that access to Fairfax County Government information is made available only to those who have the right to such access. The concept of "Least Privilege", i.e. providing only those privileges necessary to perform one's job function, will be used to ensure the security of networks, computer security and Fairfax County Government data." DTA staff performed tasks from memory of processes performed on a regular basis.

Recommendation: We recommend that DTA IT staff develop and distribute a formalized set of procedures for maintaining BPOL and ALIS (mainframe) user access lists and ensure the procedures are systematically reviewed by management and kept current.

Management Response: We recently created this formalized process for our IAS real estate system. Managers are on top of access rights for BPOL and ALIS, and no problems have ever been encountered in the current process. We will implement a formal process for revalidating access rights for these two systems analogous to the process we established for real estate. The anticipated completion date is January 2011.